

STATE CONTROLLER'S OFFICE
PERSONNEL/PAYROLL SERVICES DIVISION
P.O. Box 942850
Sacramento, CA 94250-5878

DATE: November 7, 2003

PAYROLL LETTER # 03-019

TO: All Agencies/Campuses in the Uniform State Payroll System

FROM: JOHN R. HARRIGAN, Chief
Personnel/Payroll Services Division

RE: **SPECIAL ACCOUNTING PERIOD FOR NON-CASH FRINGE BENEFITS**

This letter provides reporting instructions for NON-CASH, taxable fringe benefit values received in December 2003 and a sample employee notification letter regarding Special Accounting Period (SAP) provisions.

GENERAL INFORMATION

Per Payroll Procedures Manual (PPM), Section N-175, the SAP for non-cash taxable fringe benefit values is December through November. Non-cash values received and reported to this office from December 2002 through November 2003 will be reflected on the 2003 Form W-2. Please refer to Payroll Letter # 03-017 for 2003 reporting cutoff dates.

The SAP requires special reporting for non-cash values received in December and mandatory notification to affected employees. The following provides reporting instructions for values received in December 2003 and a sample employee notification letter.

BENEFITS IMPACTED BY SAP

The values of ALL NON-CASH taxable benefits received by employees in December 2003 and reported to the State Controller's Office are reported under the SAP. Refer to PPM Section N-175.1 for a complete benefit listing.

SPECIAL REPORTING INSTRUCTIONS -- DECEMBER ONLY

Complete the Form STD.676V NON-USPS ADJUSTMENT REQUEST --VALUES (FRINGE BENEFIT/EMPLOYEE BUSINESS EXPENSE) using PPM Section N-172.2 procedures. When completing Column 9 (Issue Date), ENTER 01/01/04 FOR ALL NON-CASH VALUES RECEIVED DURING DECEMBER 2003. Non-cash fringe benefits MUST be reported in the month following receipt of the benefit. If the Form STD. 676V is received by the 10th of the month, taxes will be withheld from that month's Master payroll warrant. NOTE: Federal and State Income Taxes are not withheld from the December Warrant for fringe benefit amounts reported for November. See PPM Section Z, Attachment N-2 for the Form STD. 676V submission schedule.

MANDATORY EMPLOYEE NOTIFICATION

The Internal Revenue Service REQUIRES employers (agencies/campuses) to:

- 1) notify affected employees of SAP reporting provisions;
- 2) instruct employees to use the same SAP (for value based benefits received in December) as the employer when filing personal income tax returns; and
- 3) notify employees of the SAP NO SOONER THAN THE RECEIPT OF THE LAST PAYCHECK OF THE CALENDAR YEAR AND NO LATER THAN RELEASE OF THE EMPLOYEE'S FORM W-2.

NOTE: Agencies/campuses are encouraged to use the attached sample notification letter to fulfill the mandated reporting requirement.

CONTACTS

If you require additional information, use the following contacts for assistance:

SAP Questions	
Chris Knutson	(916) 322-8112
Tax Support Section	

FORM STD. 676V	
Payroll Operations	(916) 322-8100
W-2 Unit	

JH:CK/TSS

ATTACHMENT -- SAMPLE LETTER TO EMPLOYEES IMPACTED BY SAP

January 7, 2004

Dear State Employee:

The Internal Revenue Service (IRS) permits employers to adopt a Special Accounting Period (SAP) for reporting non-cash, taxable fringe benefit values. The SAP allows employers to report values received late in one calendar year as income in the subsequent tax year. The SAP minimizes late reporting, issuing corrected Forms W-2 and employees filing amended income tax returns.

In January 1996, the State Controller's Office adopted a December through November SAP calendar. For Tax Year 2003, your Form W-2 will show non-cash values reported for December 2002 - November 2003.

NON-CASH, TAXABLE FRINGE BENEFITS

Under the SAP Program, the following non-cash, taxable values are affected:

- | | |
|---|--|
| - Value of State Housing | - Lottery Sales Recognition |
| - Educational Assistance Program | - Rideshare Incentive Award Program |
| - Dues and Memberships | - Personal Use of State Vehicle |
| - Loan Assumption Program | |
| - Car/VanPool | |
| - Group-Term Life Insurance (Legislators) | - Forgivable Loan/Doctoral Incentive Program |
| - Loan Forgiveness Program | - Tickets |
| - Out-Placement | - Merit Award Program (non- cash) |
| - Scholarships (Fee Waiver Prog) | |
| - Commuter Highway Vehicle | - Vehicle Provided by Third Parties |
| - Uniform Allowance | |
| - Miscellaneous Incentive Program | - Discount Travel/Transit Pass (non-cash) |
| | - Electronic Devices |
| - Overtime Meal Compensation (i.e., Meal tickets) | - Incentive Provided by Third Parties (non-cash) |

IRS REQUIREMENTS

IRS requires that employees use the same accounting period (December through November) when filing tax returns. Itemized deductions related to non-cash, taxable values received in December 2003 must be claimed in the following tax year (2004).

QUESTIONS

If you have questions regarding the SAP Program, please contact the Personnel/Accounting Office. Contact your tax advisor or the IRS regarding tax filing questions.